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Submission: Kickstart policy design**For decision****Issue**

Update on Kickstart policy decisions, ahead of meeting with the Secretary of State for Work and Pensions.

Timing

Decision needed by **Tuesday 11 August**, as this is when you are meeting the Secretary of State.

Recommendation

1. We recommend that you agree to the unit costs in principle, given the reduced non-wage costs, but that you should press DWP SoS on these two points: (i) grants based on the actual wage cost; and (ii) grants for AE and NICS payments based on actual costs. Do you agree?
2. We recommend that you agree that a small number of highly disadvantaged graduates could be eligible, but require DWP to specify in guidance that higher education is likely to make a person ineligible. Do you agree?
3. We recommend that you do not publicly set a target of 10,000 initially. Do you agree?
4. We recommend that you agree to the launch plan. Do you agree?

Annexes

Annex A: FJF and Kickstart unit costs

Annex B: Other policy decisions

Annex C: Latest draft of additionality test

Background

1. We provided an update on DWP's recent Kickstart policy decisions last week. We also held a meeting with HMT and DWP Special Advisers this week to discuss the overarching policy design. DWP continue to design the scheme at pace and have provided further advice to the SoS seek her steers on several topics. This submission updates you on those steers and highlights issues you may wish to raise with the SoS in your meeting on Tuesday 11 August. Given the large volume of policy decisions, we have included information on further decisions in **Annex B**.
2. In order to launch Kickstart by w/c 24 August, we need to review and approve the Kickstart outline business case and ensure we are content with the direction of the policy, given recent SoS steers. As Kickstart is not a typical employment programme with a contract tender, the scheme's communication strategy and the policy design will define how the scheme operates, so we believe it is essential to get this right. We have highlighted key issues to raise with SoS tomorrow (11 August) throughout this submission.

Issue 1: unit cost

5. Ahead of the SEU, DWP advised that the average unit cost for a Kickstart placement could be roughly £8250, or £9075 via an intermediary. Since the SEU announcement and following your steer, we advised DWP that you would like to see efficiencies in non-wage costs compared to FJF. DWP has revised the estimated unit cost figure and advised their SoS how they propose to calculate the unit cost per placement, which will be provided to the employer as a grant payment (**Annex A**). DWP now estimate an average unit cost of **£7055 per placement, or £7395 via an intermediary**, which could fund **270,000 jobs using funding of £2bn. Note the stated unit costs may change as DWP refine them in real time.**
6. Given that the national minimum wage (NMW) varies from £4.55 for a 16 year old to £8.20 for a 24 year old, DWP proposes calculating grants based on a weighted average of the NMW within the 16-24 year old unemployed population rather than basing grants on the actual wage costs employers incur. DWP has also weighted the wage costs using the current planned uprating of NMW for each age group. DWP advised their SoS that calculating grants based on the actual wage costs of each Kickstart participant would be administratively difficult, as a participant's NMW entitlement may change during their posting. However, the consequences of this are some employers will receive amounts that differ significantly to the actual cost of employing someone through the Kickstart Scheme. **We recommend challenging DWP on this approach, with a view to grant amounts reflecting the actual cost of employing someone through Kickstart.**
7. You asked to see evidence that we are driving better value from Kickstart compared to Future Job's Fund (FJF). Under FJF wage costs represented 49% to 59% of the total unit costs, depending on the participant's age and resulting NMW entitlement. Under Kickstart, for a placement delivered by DWP the average weighted wage cost represents 71% of the overall unit cost. It should be noted that under DWP's proposed approach the wage costs for a 16-17 year old would only make up 43% of the overall unit cost. However, DWP's

caseload data shows that only 2% of the Kickstart cohort will be in the 16-17 age group, with 18-20 and 21+ forming 36% and 62% of the cohort respectively.

8. The role of intermediaries is discussed in more detail in **Annex B**. On intermediary costs, DWP originally proposed providing 10% of the unit cost to intermediaries pre-SEU, but this has now been revised down to 5% (maximum £340). Based on meetings with chambers of commerce and business groups, we know that intermediaries will play a vital role in Kickstart by drumming up interest in the scheme and grouping bids from SMEs, controlling vacancies and processing payments. The £340 cost does not cover wraparound training and ongoing management which are funded by a £600 and £750 allocation respectively. **Note that we will scrutinise these costs further to ensure they are justified and represent value for money.**
9. DWP has advised SoS that their unit cost calculation includes a £160 component to cover the cost of AE pension contributions on average. We agree that including AE contributions is sensible (62% of the Kickstart cohort are likely to be over 21 years old, so a significant proportion of employers will be required to pay AE contributions), though DWP has assumed that all employers will pay AE costs. However, we believe this should be paid on an actual cost basis, so that employers are not funded for AE contributions for non-eligible participants. DWP's latest AE and NICS costs are also higher than those provided to you pre-SEU; we are working with DWP to clarify this discrepancy as a priority. **We recommend challenging DWP to include grants to cover AE and NICS payments on an actual cost basis.**

We recommend that you agree to the unit costs in principle, given the reduced non-wage costs, but that you should press DWP SoS on the two points outlined above: (i) grants based on the actual wage cost; and (ii) grants for AE and NICS payments based on actual costs. Do you agree?

Issue 2: eligibility

10. In the early stages of the scheme, DWP will only refer 16-24 year old claimants who are claiming UC. This will ensure the scheme can be launched quickly as referral mechanisms can easily be established. Once the programme has launched, further discussions will take place on widening the scope of Kickstart to people over 25, and 16-24 year olds not claiming benefits.
11. Following our last submission, you advised that you did not want graduates to be eligible for Kickstart. It is unlikely that under the current Kickstart eligibility criteria many graduates would actually benefit from the scheme, as their degree is likely to make them more attractive to employers and place them closer to the labour market, making them less at risk of long-term unemployment. However, DWP does not want to set rigid boundaries in the early stages of the scheme, aside from age and UC requirements, so that Kickstart can cater for disadvantaged young people at risk of long-term unemployment in many different situations. **We recommend that you agree that a small number of highly**

disadvantaged graduates could be eligible, but require DWP to specify in guidance that higher education is likely to make a person ineligible. Do you agree?

Issue 3: additionality

12. DWP continues to design and refine the additionality test for Kickstart jobs. They are consulting business groups, including the CBI, to create an additionality test that fulfils the policy intention, whilst not being too burdensome on employers. In advice to SoS, DWP highlighted the importance of using local employment and partnership staff in bid assessment, as they are plugged into the local labour market. DWP has provided an updated draft of the additionality test questions (**Annex C**). We are reassured by the progress that has been made on this, as they have chosen to use fewer, more targeted questions. DWP will continue to refine this test with business stakeholders this week. **Note that the additionality test development is ongoing and that you will want to see the final version.**

Issue 4: volumes

13. Following our last submission, you said that you wanted no less than 10,000 Kickstart participants by the November 2 launch date. During a meeting with DWP and HMT Special Advisers and officials, we discussed the feasibility of reaching this target. DWP is confident that the scheme will have strong demand, but we do not advise setting a public target given uncertainty over the number of bids. We expect DWP to provide performance data throughout August and September that could be used publicly. **Do you agree with this approach?**

Issue 5: Kickstart launch plan

14. DWP are running stakeholder events to gain business input into the scheme's design. Businesses are eager to see detail on key aspects of the scheme including the additionality test, the bid process and the wraparound support requirements. However, CBI continues to highlight to its members the importance of getting the policy right before guidance is issued. Stakeholders have also highlighted the vital role of intermediaries in facilitating participation from SMEs. The British Chamber of Commerce and their network of local chambers will play an active role in Kickstart and they plan to submit bids on behalf of SMEs early in the process.

15. Reflecting on this engagement, DWP plan to open Kickstart to applications on w/c 24 August. On this week, the Kickstart website will go-live and employers will receive detailed guidance on the scheme and how to submit applications. Following discussions between DWP and HMT Special Advisers, we propose that the following week (w/c 31st August) you and SoS hold a "full launch". By launching to DWP's existing network of businesses and associations before this event, we hope to identify employers who are willing to submit early bids ahead of it. **We recommend that you agree to the launch plan. Do you agree?**

Impact Assessments

16. **PSED:** Under the Public Sector Equality Duty (PSED)/ Equality Act 2010, Ministers are required to consider the impact of decisions they take on those sharing protected characteristics, including the scope for mitigating any negative implications.
- a. These schemes will positively impact young unemployed people claiming UC. Therefore, those groups that are over-represented in the unemployed population are expected to disproportionately gain from these measures. This includes individuals with protected characteristics such as persons with a disability, BAME individuals and females. Latest available UC management information (April 2020) suggests that, young (<24) claimants are more likely to be female (53%).
 - b. The scheme initially targets 16-24 year old people claiming UC, therefore the groups that are over-represented in this population are expected to disproportionately gain from this scheme. However, people with protected characteristics outside of this age group won't initially gain from this scheme. Those people not eligible for the scheme will be supported by the core DWP offer of support from work coaches and employment support programmes.
 - c. We will continue to take account of the public sector equality duties as the scheme is developed, including when consideration is given to opening eligibility to the scheme.
 - d. This scheme may have some interaction with the apprenticeship scheme. We know that apprenticeships are disproportionately taken by those with protected characteristics, such as BAME groups and persons with a disability.
17. **Family Test:** any impact on families should be positive, by supporting more people into work and so reducing the stress on relationships of unemployment.
18. **Climate Change / Air Quality:** no specific impacts identified
19. **Devolution:** the scheme will apply GB wide. NI will get a proportion of funding.
20. **Subsidy Control (State Aid):** current assessment is that the State Aid risk is low for the scheme as proposed.

Next steps

21. You will meet with the Secretary of State for Work & Pensions on Tuesday 11 August to discuss Kickstart. We recommend you raise the issues outlined in this submission and note the recommendations and information contained in **Annex B**.

Annex A: FJF and Kickstart unit costs**FJF unit costs**

- The unit cost for FJF was **£6,500**.
- This included a 21% (**£1,365**) “on-cost” for employer expenses, including NICs and training costs.
- Management time and materials were quoted at **£1,300** per participant per placement (£500 per 10 employees per week).
- Wage costs per placement at the time: £3,200 (18-21); £3,860 (22+)

At the time 18-21 year old’s wage would have made up **49%** of the overall unit cost, while a 22-24 year old’s wage would have made up **59%**.

Management and materials often included the costs associated with closer supervision to participants, who we know would have been further from participating in normal work than other 18-24s who were able to find unsubsidised work.

DWP has also pointed out that anecdotally, some of the materials costs may have been high e.g. for new ‘community benefit’ projects which required tools e.g. gardening or painting, so we may see a different balance of costs this time when changing the test and include more private sector roles.

DWP’s data does not contain a breakdown of actual purchases beneath these categories, meaning we cannot analyse this.

Kickstart unit costs

Based on the figures below, for a placement delivered by DWP the average weighted wage cost makes up **71%** of the overall unit cost.

However, this figure varies by age group. For 16-17 year olds, the wage costs would only make up **43%** of the overall unit costs. Whereas for the 21-24 age group, the wage costs make up **78%** of the total unit cost. Current caseload data suggest that 16-17 year olds only make up 2% of the potential Kickstart cohort, hence why the weighted average is skewed toward the 18+ age group.

Employer costs	GBP (£)
Wage	5015
On-cost for NICS and AE pension	690 (AE at 160 and NICS at 530) ¹
On-cost for work support (training, work-search)	600
Management & materials	750
Total if delivered by DWP	7055
Intermediary payment*	340 if used
Total if delivered via intermediary	7395
Average grant value (assumed 50/50 split of intermediaries and direct applicants)	7230

Annex B: Other policy decisions

¹ These figures are currently being reviewed

1. This annex updates you on progress regarding other aspects of the scheme and updates you on other policy steers, or decisions.

Interactions with other provision

2. In our last submission, we raised that business stakeholders were concerned about the potential overlap between apprenticeships and Kickstart. We held further discussions with officials in DWP and DfE to understand how the distinct pathways for Kickstart participants and apprentices will work in practice. DfE is concerned that DWP will refer claimants to the Kickstart program rather than an apprenticeship where an apprenticeship would be a viable option. Business are also confused if they should continue offering apprenticeships to younger learners when they could use the Kickstart instead.
3. Our position is that there is a clear distinction between the two provisions and the claimants who will access them – i.e. entry to Kickstart is for those at risk of long term unemployment only whereas an apprenticeship is for those who are employable but who need training in order to be fully competent. **Note that we continue to work closely with DfE and DWP and we recommend that the eligibility criteria for entry to Kickstart is made clear both to DWP and publicly. Do you agree?**

Use of intermediaries and minimum bid sizes

4. DWP envisages employer bids for Kickstart participants coming direct from large employers, as well as from umbrella organisations on behalf of SMEs. Umbrella organisations could be local enterprise partnerships, local authorities, trade associations, chambers of commerce or charities. Feedback from FJF highlights the integral role played by these organisations in providing support for smaller businesses and ensuring they can take part in the scheme.
5. DWP SoS has agreed to set a minimum bid size at 30 jobs. This bid floor will encourage smaller employers to bid via umbrella organisations and limit the number of individual small - scale applications DWP receives. As the scheme is rolled out, there may be scope to lower the minimum bid size as DWP build systems to automate and manage the bid assessment process. For example, DWP may wish to lower the bid size in order to encourage more bids from small employers. **We recommend that you agree to the minimum bid size being set at 30 initially. Do you agree?**

Contingency plan

6. DWP currently assumes that they will be able to deliver Kickstart on schedule. However, given the large number of variables and the constrained timeline for spending approval, DWP has created a contingency plan to ensure they are able to create a smaller number of placements by November. DWP would be able to deliver the contingency plan within their own spending approval limits, but would require HMT approval to pay grants to employers.
7. DWP officials have advised their SoS that she may wish to discuss the contingency plan with you when you meet on Tuesday. **We recommend that you note the work on the contingency plan but highlight the importance of DWP addressing the issues raised in this submission in order to ensure spending approval is received in your meeting with SoS. Do you agree?**

For information: employment status

8. We have engaged BEIS to better understand the employment status of Kickstart participants and assess whether there are risks associated with not mandating that Kickstart participants are classed as employees, not workers. The definition for defining an employee is set out in case law, not legislation. BEIS advised that there are a number of factors which decide employment status, including the level of employer control, mutual obligations between an employer and the participant, personal service and other relevant factors.
9. Having clear requirements around hours worked, the type of job, and the provision of training may make it more likely that a Kickstart participant would be seen as an employee rather than a worker, but we have not received legal advice on this and it is difficult to offer assurance for the wide variety of jobs that Kickstart could create. Recent estimates indicate that the vast majority of job holders in the UK are classed as employees. It should also be noted that some of the additional rights of employees only come with time in service, so people in a job for six months would generally have fewer rights than those in post for several years.

For information: national coverage

10. To try and create more jobs than FJF, DWP is streamlining the employer application process and removing barriers to private sector involvement. However, given the unpredictable nature of the local and national economic situation, where entire areas may be locked down, DWP is creating a strategy to ensure Kickstart can adapt and achieve national coverage.
11. In advice to the SoS, DWP recommend not setting regional targets for the volume of Kickstart jobs created and people placed in post, but instead using a series of indicators to identify any local areas over or under performing. These indicators would include Kickstart metrics; unemployment data; data on vacancies; and benefit off/on-flow data. If an area or sector was underperforming, DWP would use their existing network, the umbrella organisations in Kickstart and targeted communication to drive more jobs in underperforming areas and sectors.

For information: fraud and error

12. To tackle employer fraud and ensure jobs are truly additional, DWP will implement a bid assessment process that combines automated checks with local labour market knowledge. The current plan for bid assessment will see all bids triaged centrally, where an automated digital tool will run due diligence checks on the employer to ensure they pass minimum standards (registered company, not bankrupt etc.) The bids will then be evaluated for suitability by a board who will assess the submitted documentation alongside local JCP input from staff responsible for employers and partnering. These staff will use their understanding of the local labour market to provide additional commentary and checks on the employer's assessment of additionality. Umbrella organisations, such as local chambers of commerce, will also use their knowledge of local businesses and the labour market to offer an additional layer of due diligence to the process.
13. DWP is also working to implement further controls to deter abuse of the system and ensure participants get a valuable Kickstart experience. Performance management obligations will be outlined in grant agreements and DWP's ability to recover misused grant funds will be outlined. DWP has also agreed to look at implementing a system whereby the employer and participant outline their mutual obligations to each other and are advised to speak out if they aren't being met.

14. The Kickstart project team is working closely with HMRC and Job Centre Plus staff to create checks and controls that will ensure: all employers register for PAYE before joining Kickstart; grants are only paid out when participants are in post; that the appropriate NMW is being paid; and that employers are fulfilling their auto-enrolment duties.

Annex C: Latest draft of additionality test

Note on these draft questions: these questions are designed to inform the bid assessment process, rather than dictate the outcome. DWP will use these questions and any additional information from local partners to ascertain whether the job is more than likely than not additional.

- Please explain why these vacancies are additional
- Would you still create these jobs if there was no Kickstart funding?
 - If yes, please give more details, e.g. how would you fund salaries for these jobs?
When would you create these jobs?
- What is your current workforce (number of workers and type)?
- What changes to your workforce, e.g. redundancies, have there been in the last 6 months? Why?
 - [If appropriate] How many people have been made redundant or been let go in the last 6 months?
 - [If appropriate] What was the average salary of those who had been made redundant or let go in the last 6 months?
 - [If appropriate] Briefly, what functions / activities did those who were made redundant or were let go in the last 6 months undertake?
 - [If appropriate] Please explain any similarities between the functions / activities of the proposed jobs you are creating and the functions / activities of those who were made redundant or let go in the last 6 months.